

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Kochville Township	County Saginaw
Audit Date March 31, 2005	Opinion Date May 19, 2005	Date Accountant Report Submitted to State: 9/22/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable boxes for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL: 129/91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal financial assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name) Yeo & Yeo			
Street Address 3023 Davenport	City Saginaw	State MI	ZIP 48605
Accountant Signature 			

Kochville Township
Saginaw County, Michigan
Annual Financial Statements
and
Auditors' Report
March 31, 2005

Table of Contents

<u>Section</u>	<u>Page</u>
1 List of Elected and Appointed Officials	1 - 1
2 Independent Auditors' Report	2 - 1
3 Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	3 - 1
Statement of Activities	3 - 2
Fund Financial Statements	
Governmental Funds	
Balance Sheet	3 - 3
Reconciliation of Fund Balances of Governmental Funds to Net Assets of Governmental Activities	3 - 4
Statement of Revenues, Expenditures and Changes in Fund Balances	3 - 5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	3 - 6
Proprietary Funds	
Statement of Net Assets	3 - 7
Statement of Revenues, Expenses and Changes in Fund Net Assets	3 - 8
Statement of Cash Flows	3 - 9
Fiduciary Funds	
Statement of Net Assets	3 - 10
Statement of Changes in Net Assets	3 - 11
Notes to Financial Statements	3 - 12

<u>Section</u>		<u>Page</u>
4	Required Supplemental Information	
	Budgetary Comparison Schedule	
	General Fund	4 - 1
	Fire Fund	4 - 3
	Building Inspection Fund	4 - 4
5	Other Supplemental Information	
	Component Unit – Downtown Development Authority	
	Budgetary Comparison Schedule	5 - 1
	Schedule of Indebtedness	5 - 2
6	Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	6 - 1

Kochville Township
List of Elected and Appointed Officials
March 31, 2005

Township Board

Kenneth P. Bayne - Supervisor

Michelle Berger - Treasurer

George A. Schnepf - Clerk

Patricia Bourdow - Trustee

Lynn Kauer - Trustee



3023 Davenport
Saginaw, MI 48602
Phone (989) 793-9830 / (800) 968-0010
Fax (989) 793-0186

Independent Auditors' Report

To the Township Board
Kochville Township
Saginaw, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kochville Township as of and for the year ended March 31, 2005, which collectively comprise the Government's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Government's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kochville Township as of March 31, 2005 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Township has implemented a new reporting model as required by the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments* and Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosures*, as of April 1, 2004.

The budgetary comparison information identified in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kochville Township's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Township has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not a required part of, the basic financial statements.

Yeo & Yeo, P.C.

May 19, 2005
Saginaw, Michigan

Kochville Township
Statement of Net Assets
March 31, 2005

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 892,682	\$ 1,562,780	\$ 2,455,462	\$ 38,395
Investments	-	-	-	203,620
Receivables				
Taxes	17,599	-	17,599	-
Customers	-	63,289	63,289	-
Special assessments	-	1,189,673	1,189,673	-
Accrued interest and other	34,654	5,252	39,906	-
Due from other units of government	71,795	-	71,795	-
Inventories	-	69,067	69,067	-
Advances to other funds	(271,434)	271,434	-	-
Capital assets, net	979,118	5,697,616	6,676,734	-
Total assets	1,724,414	8,859,111	10,583,525	242,015
Liabilities				
Accounts payable	248,088	37,513	285,601	-
Accrued and other liabilities	82,271	45,071	127,342	-
Noncurrent liabilities				
Due within one year	-	25,600	25,600	-
Due in more than one year	-	345,400	345,400	-
Total liabilities	330,359	453,584	783,943	-
Net Assets				
Invested in capital assets, net of related debt	979,118	5,326,616	6,305,734	-
Unrestricted	414,937	3,078,911	3,493,848	242,015
Total net assets	\$ 1,394,055	\$ 8,405,527	\$ 9,799,582	\$ 242,015

See Accompanying Notes to Financial Statements

Kochville Township
Statement of Activities
For the Year Ended March 31, 2005

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit
					Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 300,307	\$ -	\$ -	\$ -	\$ (300,307)	\$ -	\$ (300,307)	\$ -
Public safety	184,733	26,742	9,235	-	(148,756)	-	(148,756)	-
Public works	324,322	217,165	-	-	(107,157)	-	(107,157)	-
Community and economic development	58,667	-	-	-	(58,667)	-	(58,667)	-
Recreation and culture	51,107	-	-	251,640	200,533	-	200,533	-
Total governmental activities	919,136	243,907	9,235	251,640	(414,354)	-	(414,354)	-
Business-type activities								
Sewer	324,217	206,787	-	194,937	-	77,507	77,507	-
Water	720,890	455,638	-	-	-	(265,252)	(265,252)	-
Total business-type activities	1,045,107	662,425	-	194,937	-	(187,745)	(187,745)	-
Total primary government	\$ 1,964,243	\$ 906,332	\$ 9,235	\$ 446,577	(414,354)	(187,745)	(602,099)	-
Component unit								
Downtown Development Authority	\$ 136,356	\$ -	\$ -	\$ -				(136,356)
General revenues								
Property taxes					224,244	-	224,244	85,243
State shared revenue					224,098	-	224,098	-
Unrestricted investment earnings					5,130	113,746	118,876	3,126
Miscellaneous					144,805	17,086	161,891	1,800
Total general revenues and transfers					598,277	130,832	729,109	90,169
Change in net assets					183,923	(56,913)	127,010	(46,187)
Net assets - beginning of year					1,210,132	8,462,440	9,672,572	288,202
Net assets - end of year					\$ 1,394,055	\$ 8,405,527	\$ 9,799,582	\$ 242,015

See Accompanying Notes to Financial Statements

Kochville Township
Governmental Funds
Balance Sheet
March 31, 2005

	Special Revenue Funds			Total Governmental Funds
	General	Fire	Building Inspection	
Assets				
Cash and cash equivalents	\$ 748,986	\$ 94,035	\$ 49,661	\$ 892,682
Receivables				
Taxes	12,272	5,327	-	17,599
Accrued interest and other	22,918	11,536	-	34,454
Due from other units of government	71,795	-	-	71,795
Due from other funds	200	-	-	200
Total assets	<u>\$ 856,171</u>	<u>\$ 110,898</u>	<u>\$ 49,661</u>	<u>\$ 1,016,730</u>
Liabilities				
Accounts payable	\$ 245,386	\$ 2,464	\$ 238	\$ 248,088
Accrued and other liabilities	80,235	-	-	80,235
Advances from other funds	271,434	-	-	271,434
Deferred revenue	72,334	5,327	-	77,661
Total liabilities	<u>669,389</u>	<u>7,791</u>	<u>238</u>	<u>677,418</u>
Fund Balances				
Unreserved				
Designated for:				
Matching grants	55,000	-	-	55,000
Unreserved, reported in:				
General fund	131,782	-	-	131,782
Special revenue funds	-	103,107	49,423	152,530
Total fund balances	<u>186,782</u>	<u>103,107</u>	<u>49,423</u>	<u>339,312</u>
Total liabilities and fund balances	<u>\$ 856,171</u>	<u>\$ 110,898</u>	<u>\$ 49,661</u>	<u>\$ 1,016,730</u>

See Accompanying Notes to Financial Statements

Kochville Township
Governmental Funds
Reconciliation of Fund Balances of Governmental Funds
to Net Assets of Governmental Activities
March 31, 2005

Total fund balances for governmental funds	\$ 339,312
Total net assets for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	979,118
Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.	77,661
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	<u>(2,036)</u>
Net assets of governmental activities	<u>\$ 1,394,055</u>

Kochville Township
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended March 31, 2005

	Special Revenue Funds			Governmental Funds Total
	General	Fire	Building Inspection	
Revenues				
Taxes	\$ 229,165	\$ -	\$ -	\$ 229,165
Licenses and permits	12,187	-	94,052	106,239
State revenue sharing	225,466	-	-	225,466
Other state grants	70,376	9,235	-	79,611
Local contributions	20	-	-	20
Charges for services	108,468	26,742	75	135,285
Interest income	4,533	378	219	5,130
Other revenue	148,404	137,544	-	285,948
Total revenues	<u>798,619</u>	<u>173,899</u>	<u>94,346</u>	<u>1,066,864</u>
Expenditures				
Current				
General government	285,257	-	-	285,257
Public safety	-	148,230	-	148,230
Public works	267,470	-	56,237	323,707
Community and economic development	58,667	-	-	58,667
Recreation and culture	235,626	-	-	235,626
Capital outlay	9,925	7,130	615	17,670
Total expenditures	<u>856,945</u>	<u>155,360</u>	<u>56,852</u>	<u>1,069,157</u>
Excess (deficiency) of revenues over expenditures	<u>(58,326)</u>	<u>18,539</u>	<u>37,494</u>	<u>(2,293)</u>
Other financing sources (uses)				
Transfers in	25,523	-	-	25,523
Transfers out	-	(25,523)	-	(25,523)
Total other financing sources and uses	<u>25,523</u>	<u>(25,523)</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>(32,803)</u>	<u>(6,984)</u>	<u>37,494</u>	<u>(2,293)</u>
Fund balance - beginning of year	<u>219,585</u>	<u>110,091</u>	<u>11,929</u>	<u>341,605</u>
Fund balance - end of year	<u>\$ 186,782</u>	<u>\$ 103,107</u>	<u>\$ 49,423</u>	<u>\$ 339,312</u>

See Accompanying Notes to Financial Statements

Kochville Township
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended March 31, 2005

Net change in fund balances - Total governmental funds \$ (2,293)

Total change in net assets reported for governmental activities in the statement of activities
is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those
assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(44,913)
Capital outlay	194,808

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue
in the funds.

State shared revenue	(1,368)
Grants	19,618
Property taxes	(4,921)
Other revenue	22,866

Expenses are recorded when incurred in the statement of activities
Accrued interest

126

Change in net assets of governmental activities **\$ 183,923**

Kochville Township
Proprietary Funds
Statement of Net Assets
March 31, 2005

	Enterprise Funds		
	Sewer	Water	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 907,054	\$ 655,726	\$ 1,562,780
Receivables			
Customers	19,890	43,399	63,289
Special assessments, current	10,295	10,098	20,393
Accrued interest and other	-	5,252	5,252
Inventories	-	69,067	69,067
Total current assets	<u>937,239</u>	<u>783,542</u>	<u>1,720,781</u>
Noncurrent assets			
Special assessments receivable, deferred	363,182	806,098	1,169,280
Advances to other funds	-	271,434	271,434
Capital assets, net	<u>2,556,127</u>	<u>3,141,489</u>	<u>5,697,616</u>
Total noncurrent assets	<u>2,919,309</u>	<u>4,219,021</u>	<u>7,138,330</u>
Total assets	<u>3,856,548</u>	<u>5,002,563</u>	<u>8,859,111</u>
Liabilities			
Current liabilities			
Accounts payable	16,173	21,340	37,513
Accrued and other liabilities	23,939	21,132	45,071
Current portion of noncurrent liabilities	<u>25,600</u>	<u>-</u>	<u>25,600</u>
Total current liabilities	<u>65,712</u>	<u>42,472</u>	<u>108,184</u>
Noncurrent liabilities			
Long-term debt net of current portion	<u>345,400</u>	<u>-</u>	<u>345,400</u>
Total liabilities	<u>411,112</u>	<u>42,472</u>	<u>453,584</u>
Net Assets			
Invested in capital assets, net of related debt	2,185,127	3,141,489	5,326,616
Unrestricted	<u>1,260,309</u>	<u>1,818,602</u>	<u>3,078,911</u>
Total net assets	<u>\$ 3,445,436</u>	<u>\$ 4,960,091</u>	<u>\$ 8,405,527</u>

See Accompanying Notes to Financial Statements

Kochville Township
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended March 31, 2005

	Enterprise Funds		
	Sewer	Water	Total
Operating revenue			
Customer fees	\$ 206,787	\$ 309,018	\$ 515,805
Connection fees	-	146,620	146,620
Other revenue	3,370	13,716	17,086
Total operating revenue	210,157	469,354	679,511
Operating expenses			
Personal services	51,236	119,688	170,924
Supplies	1,782	374,434	376,216
Contractual services	8,294	31,534	39,828
Utilities	126,447	472	126,919
Repairs and maintenance	15,926	35,237	51,163
Other expenses	8,994	63,652	72,646
Depreciation	89,794	95,873	185,667
Total operating expenses	302,473	720,890	1,023,363
Operating loss	(92,316)	(251,536)	(343,852)
Nonoperating revenues (expenses)			
Interest income	34,593	79,153	113,746
Interest expense	(21,744)	-	(21,744)
Total nonoperating revenues	12,849	79,153	92,002
Loss before contributions	(79,467)	(172,383)	(251,850)
Capital contributions	194,937	-	194,937
Change in net assets	115,470	(172,383)	(56,913)
Net assets - beginning of year	3,409,006	5,132,474	8,541,480
Prior period adjustment	(79,040)	-	(79,040)
Net assets - beginning of year restated	3,329,966	5,132,474	8,462,440
Net assets - end of year	\$ 3,445,436	\$ 4,960,091	\$ 8,405,527

See Accompanying Notes to Financial Statements

Kochville Township
Proprietary Funds
Statement of Cash Flows
For the Year Ended March 31, 2005

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Cash flows from operating activities			
Receipts from customers	\$ 214,809	\$ 456,434	\$ 671,243
Payments to suppliers	(165,971)	(513,552)	(679,523)
Payments to employees	(51,236)	(119,688)	(170,924)
Net cash used by operating activities	(2,398)	(176,806)	(179,204)
Cash flows from noncapital financing activities			
Advances from other funds	-	16,874	16,874
Cash flows from capital and related financing activities			
Proceeds from special assessments	48,285	115,492	163,777
Capital contributions	194,937	-	194,937
Purchases/construction of capital assets	(82,084)	(94,913)	(176,997)
Principal and interest paid on long-term debt	(56,181)	-	(56,181)
Net cash provided by capital and related financing activities	104,957	20,579	125,536
Cash flows from investing activities			
Interest received	35,348	79,153	114,501
Net increase (decrease) in cash and cash equivalents	137,907	(60,200)	77,707
Cash and cash equivalents - beginning of year	769,147	715,926	1,485,073
Cash and cash equivalents - end of year	<u>\$ 907,054</u>	<u>\$ 655,726</u>	<u>\$ 1,562,780</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating loss	\$ (92,316)	\$ (251,536)	\$ (343,852)
Adjustments to reconcile operating income to net cash from operating activities			
Depreciation and amortization expense	89,794	95,873	185,667
Changes in assets and liabilities			
Receivables (net)	4,652	(12,920)	(8,268)
Inventories	-	(3,191)	(3,191)
Accounts payable	(7,658)	(4,045)	(11,703)
Accrued and other liabilities	3,130	(987)	2,143
Net cash used by operating activities	<u>\$ (2,398)</u>	<u>\$ (176,806)</u>	<u>\$ (179,204)</u>

See Accompanying Notes to Financial Statements

**Kochville Township
Fiduciary Funds
Statement of Net Assets
March 31, 2005**

	Pension Trust Fund	Agency Funds
Assets		
Cash and cash equivalents	\$ -	\$ 4,433
Investments	<u>120,979</u>	<u>-</u>
Total assets	<u>120,979</u>	<u>\$ 4,433</u>
Liabilities		
Accounts payable	-	\$ 4,233
Due to other funds	<u>-</u>	<u>200</u>
Total liabilities	<u>-</u>	<u>\$ 4,433</u>
Net Assets		
Held in trust for pension benefits and other purposes	<u>\$ 120,979</u>	

Kochville Township
Fiduciary Funds
Statement of Changes in Net Assets
For the Year Ended March 31, 2005

	Pension Trust Fund
Additions	
Contributions	
Employer	<u>\$ 17,471</u>
Investment earnings	
Net increase in fair value	<u>5,598</u>
Total additions	<u>23,069</u>
Deductions	
Benefits	<u>9,445</u>
Change in net assets	13,624
Net assets - beginning of year	<u>107,355</u>
Net assets - end of year	<u><u>\$ 120,979</u></u>

See Accompanying Notes to Financial Statements

Kochville Township
Notes to Financial Statements
March 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

Kochville Township is governed by an elected five-member Board. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description).

Discretely Presented Component Units – The component unit column in the entity wide financial statements include the financial data of the Township's Downtown Development Authority. This unit is reported in a separate column to emphasize that it is legally separate from the Township. The members of the Governing Board of the Downtown Development Authority are appointed by the Township Board. The budgets and expenditures of the Downtown Development Authority must be approved by the Township Board. The Township also has the ability to significantly influence operations of the Downtown Development Authority. The Downtown Development Authority does not issue any other form of financial statements except as contained in the Kochville Township annual financial statements.

Joint Venture

Kochville Township entered into a joint venture with the City of Zilwaukee, Carrollton Township and the Charter Township of Saginaw to create the Northwest Utilities Authority. This Authority was established to operate and service the sewage transmission system to the City of Saginaw's waste water treatment plant. The Authority sold bonds to construct the system of which the portion Kochville Township is liable for is based on the pro-rata share of the average of the past

three years of metered flow readings. Monthly payments are made to the Authority for operation and maintenance, for capital improvements and for debt service. Separate financial statements are issued by the Northwest Utilities Authority.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. *Government activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Kochville Township
Notes to Financial Statements
March 31, 2005

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Fire Fund accounts for the revenue and expenditures for the government's fire protection.

The Building Inspection Fund accounts for the revenue and expenditures of the government's building inspection operation.

The government reports the following major proprietary funds:

The Water Fund and the Sewer Fund account for the activities of the water distribution system and sewage collection system.

Additionally, the government reports the following:

The Pension Trust Fund accounts for amounts contributed from the Township and withheld from employees' pay in accordance with the Internal Revenue Code.

Trust and Agency Fund accounts for property tax and other deposits collected on behalf of other units and individuals.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Kochville Township
Notes to Financial Statements
March 31, 2005

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the government Enterprise Funds are charges to customers for sales and services. The government also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, liabilities, and net assets or equity

Deposits and investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term

investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and payables – In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

The 2004 taxable valuation of the government totaled \$157,878,320, on which ad valorem taxes consisted of 0.9766 mills for operating purposes. This resulted in \$153,850 for operating expenses, exclusive of any Michigan Tax Tribunal or Board of Review adjustments.

Inventories and prepaid items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets – Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or

Kochville Township
Notes to Financial Statements
March 31, 2005

estimated historical cost, if purchased or constructed.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building improvements	15 to 30 years
Water and sewer lines	50 to 75 years
Vehicles	3 to 5 years
Office equipment	5 to 7 years
Computer equipment	3 to 7 years

Compensated absences –There is no liability for unpaid accumulated vacation and sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government.

Long-term obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purposes. Designations of fund balance represent tentative management plans that are subject to change.

Comparative data

Comparative data is not included in the Government's financial statements.

Accounting and reporting change

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*. The Kochville Township has applied the provisions of this statement and related GASB statements in the accompanying financial statements (including the notes to financial statements). The Township has elected to implement both the general provisions of the statement and the prospective reporting of the infrastructure in the current year. Certain significant changes in the statement include the following:

- Financial statements prepared using full accrual accounting for all of the Township's activities.

Kochville Township
Notes to Financial Statements
March 31, 2005

- A change in the fund financial statements to focus on the major funds.
- Capital assets in the governmental activities column of the statement of net assets were not previously reported.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information

The Government is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

Prior to March 31, the Township Supervisor submits to the Township Board a proposed operating budget for the fiscal year commencing the following April 1. Public hearings are obtained to obtain taxpayer comments and the budget is legally enacted through passage of an ordinance prior to March 31.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The Township Clerk is authorized to transfer budgeted amounts between line items within an activity; however, any revisions that alter the total expenditures of an activity must be approved by the Township Board.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

Excess of expenditures over appropriations

The Township incurred expenditures in excess of budget in the General Fund, Fire Fund and Downtown Development Authority (DDA). Excess expenditures in these funds occurred in the following areas:

	<u>Budget</u>	<u>Actual</u>	<u>Excess</u>
General Fund			
General government	\$ 276,908	\$ 285,257	\$ 8,349
Community and economic development	56,100	58,667	2,567
Fire Fund			
Public safety	131,350	148,230	16,880
DDA			
Capital outlay	122,250	126,038	3,788

NOTE 3 - DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91 authorizes the Government to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States. United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Kochville Township
Notes to Financial Statements
March 31, 2005

The governing body has designated one bank for the deposit of local unit funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and certificates of deposit, but not the remainder of State statutory authority as listed above.

	Cash and Cash Equivalents	Investments
Governmental activities	\$ 892,682	\$ -
Business-type activities	<u>1,562,780</u>	<u>-</u>
Total primary government	2,455,462	-
Fiduciary funds	4,433	120,979
Component unit	<u>38,395</u>	<u>203,620</u>
Total	<u><u>\$ 2,498,290</u></u>	<u><u>\$ 324,599</u></u>

The breakdown between deposits and investments is as follows:

	Primary Government	Fiduciary Funds	Component Unit
Bank deposits (checking and savings accounts, certificates of deposit)	\$ 2,455,262	\$ 4,433	\$ 38,395
Investments in securities, mutual funds and similar vehicles	-	120,979	203,620
Petty cash and cash on hand	<u>200</u>	<u>-</u>	<u>-</u>
	<u><u>\$ 2,455,462</u></u>	<u><u>\$ 125,412</u></u>	<u><u>\$ 242,015</u></u>

Deposits

The bank balance was \$ 2,613,146 at year end. Of the bank balance, \$ 100,000 was covered by federal depository insurance and 2,513,146 was uninsured and uncollateralized. Since the component unit participates in the government's common cash, the federal depository insurance is not specifically allocated to their balance.

Investments

Investments are classified into three categories to give an indication of the level of risk assumed by the government. Category 1 includes investments that are insured or registered or for which the securities are held by the government or its agency in the government's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agency in the government's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the government's name.

At year-end, investment balances in the pension trust fund of \$120,979 were contract annuities and not categorized.

NOTE 4 - RECEIVABLES AND DEFERRED REVENUE

The only receivables not expected to be collected within one year are as follows:

	Due After One Year
Primary government	
Special assessments	
Sewer	\$ 363,182
Water	<u>806,098</u>
	<u><u>\$ 1,169,280</u></u>

Governmental funds report deferred revenue in connection with

Kochville Township

Notes to Financial Statements

March 31, 2005

receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>
Primary government	
State shared revenue	\$ 17,578
Grants	19,618
Property taxes	17,599
Other revenue	<u>22,866</u>
	<u>\$ 77,661</u>

CAPITAL ASSETS

Capital assets activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ -	\$ 111,298	\$ -	\$ 111,298
Capital assets being depreciated				
Land improvements	-	73,221	-	73,221
Buildings, additions and improvements	546,098	-	-	546,098
Machinery and equipment	248,137	10,289	-	258,426
Vehicles	601,270	-	-	601,270
Total capital assets being depreciated	<u>1,395,505</u>	<u>83,510</u>	<u>-</u>	<u>1,479,015</u>
Less accumulated depreciation for				
Buildings, additions and improvements	202,288	13,652	-	215,940
Machinery and equipment	167,414	21,144	-	188,558
Vehicles	196,580	10,117	-	206,697
Total accumulated depreciation	<u>566,282</u>	<u>44,913</u>	<u>-</u>	<u>611,195</u>
Net capital assets being depreciated	<u>829,223</u>	<u>38,597</u>	<u>-</u>	<u>867,820</u>
Governmental activities capital assets, net	<u>\$ 829,223</u>	<u>\$ 149,895</u>	<u>\$ -</u>	<u>\$ 979,118</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Construction in progress	\$ 258,613	\$ 56,242	\$ 254,534	\$ 60,321
Capital assets being depreciated				
Buildings, additions and improvements	-	27,068	-	27,068
Machinery and equipment	42,813	88,545	-	131,358
Vehicles	71,338	-	-	71,338
Water system	3,929,713	259,676	-	4,189,389
Sewer system	3,876,601	-	-	3,876,601
Total capital assets being depreciated	<u>7,920,465</u>	<u>375,289</u>	<u>-</u>	<u>8,295,754</u>
Less accumulated depreciation for				
Machinery and equipment	26,727	3,896	-	30,623
Vehicles	31,043	11,732	-	42,775
Water system	1,067,785	93,494	-	1,161,279
Sewer system	1,339,437	84,345	-	1,423,782
Total accumulated depreciation	<u>2,464,992</u>	<u>193,467</u>	<u>-</u>	<u>2,658,459</u>
Net capital assets being depreciated	<u>5,455,473</u>	<u>181,822</u>	<u>-</u>	<u>5,637,295</u>
Business-type capital assets, net	<u>\$ 5,714,086</u>	<u>\$ 238,064</u>	<u>\$ 254,534</u>	<u>\$ 5,697,616</u>

Capital assets activity of the component unit for the current year was as follows:

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities	
General government	\$ 8,410
Public safety	<u>36,503</u>
Total governmental activities	<u>44,913</u>
Business-type activities	
Sewer	89,794
Water	<u>95,873</u>
Total business-type activities	<u>185,667</u>
Total primary government	<u>\$ 230,580</u>

Kochville Township
Notes to Financial Statements
March 31, 2005

NOTE 6 - INTERFUND RECEIVABLES, PAYABLE, AND TRANSFERS

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Agency	<u>\$ 200</u>

The outstanding balances between funds result mainly from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

Advances between funds

<u>Advance to</u>	<u>Advance from</u>	
General fund	Water fund	<u>\$ 271,434</u>

The advance was made to purchase a fire truck. Payments of \$25,523, including 3% annual interest will be made annually until January 2018.

The details for interfund transfers are as follows:

<u>Funds Transferred From</u>	<u>Funds Transferred To</u>	<u>Amount</u>
Fire	General	<u>\$ 25,523</u>

Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

NOTE 7 - LEASES

Operating Leases

The government leases a copier under a non-cancelable operating lease. Total expense for the lease was \$ 1,536 for the year ended March 31, 2005. The future minimum lease payments for this lease is as follows:

<u>Year ending March 31,</u>	
2006	\$ 4,608
2007	4,608
2008	4,608
2009	<u>3,072</u>
	<u>\$ 16,896</u>

Kochville Township
Notes to Financial Statements
March 31, 2005

NOTE 8 - LONG-TERM DEBT

The government has entered into a contract payable to provide for the acquisition and construction of major capital projects. Contract payables are direct obligations and pledge the full faith and credit of the government.

Long-term obligation activity is summarized as follows:

	<u>Amount of Issue</u>	<u>Maturity Date</u>	<u>Interest Rate Ranges</u>	<u>Principal Maturity Ranges</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type activities									
Bonds payable									
Contract payable									
Northwest Utilities Authority	\$ 2,970,000	2017	4.5- 5.5%	\$25,607 - \$36,224	<u>\$ 405,437</u>	<u>\$ -</u>	<u>\$ 34,437</u>	<u>\$ 371,000</u>	<u>\$ 25,600</u>

Kochville Township
Notes to Financial Statements
March 31, 2005

Annual debt service requirements to maturity for the above obligations are estimated to be as follows:

Year Ending December 31,	Business-type Activities	
	Principal	Interest
2006	\$ 25,600	\$ 17,241
2007	26,200	15,833
2008	27,500	14,392
2009	28,100	13,127
2010	29,400	11,862
2011-2015	162,400	38,642
2016-2017	<u>71,800</u>	<u>4,860</u>
	<u>\$ 371,000</u>	<u>\$ 115,957</u>

NOTE 9 - RISK MANAGEMENT

The government is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The government has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 10 - EMPLOYEE'S RETIREMENT SYSTEM – DEFINED CONTRIBUTION PLAN

The Township has a defined contribution money purchase pension plan (the Plan) covering all employees who are at least 18 years of age. New employees are enrolled as Plan participants on April 1, the first day of each Plan year. The Plan is administered by the Township Office Manager and its activities are accounted for in the Pension Trust Fund of the Township's basic financial statements.

Required annual contributions to the Plan are based on each employee's annual compensation. Currently, the Township contributes 100% of the total required annual contribution. Employees may elect to make voluntary contributions to the Plan through payroll withholdings. Total annual contributions are subject to the Internal Revenue Code limitations. The Township's contributions are fully vested for each employee upon the earlier of the completion of twenty months of service, reaching 65 years of age, permanent disability, or death.

The Township's payroll covered under the Plan for the year ended March 31, 2005 was \$164,932. Total Township payroll for the year ended March 31, 2005 was \$332,659. The Township's required annual contribution to the Plan was \$16,493. In addition, adjustments of \$978 were added in the current year. There was no employee contributions made.

NOTE 11 - DEFERRED COMPENSATION PLAN

The government Board offers all government employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans are held in trust by the Government. The plan balances and activities are reflected in the government's financial statements.

NOTE 12 - CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

Kochville Township
Notes to Financial Statements
March 31, 2005

NOTE 13 - PRIOR PERIOD ADJUSTMENT

The March 31, 2004 net assets of the Sewer Fund have been restated to account for expenditures that were previously recorded as a prepaid item. The following shows the restatement:

Sewer Fund

Net assets - beginning of year	\$ 3,409,006
Prepaid expense	<u>(79,040)</u>
Net assets - beginning of year restated	<u>\$ 3,329,966</u>

Kochville Township
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended March 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes				
Property taxes	\$ 156,000	\$ 156,000	\$ 156,264	\$ 264
Administration fee	60,000	60,000	72,901	12,901
Licenses and permits	5,000	5,000	12,187	7,187
Federal grants	311,000	311,000	-	(311,000)
State revenue sharing	200,000	200,000	225,466	25,466
State grants	-	-	70,376	70,376
Local contributions	-	-	20	20
Charges for services	114,500	114,500	108,468	(6,032)
Interest income	2,000	2,000	4,533	2,533
Other revenue	3,000	3,000	148,404	145,404
Transfer in	<u>25,523</u>	<u>25,523</u>	<u>25,523</u>	<u>-</u>
Total revenues	<u>877,023</u>	<u>877,023</u>	<u>824,142</u>	<u>(52,881)</u>
Expenditures				
General government				
Township board	12,000	15,000	18,080	3,080
Supervisor	26,330	31,330	31,884	554
Accounting	107,000	129,500	139,159	9,659
Clerk	20,750	20,750	19,982	(768)
Board of review	2,200	2,200	1,037	(1,163)
Treasurer	29,100	32,100	30,063	(2,037)
Assessor	17,000	21,613	20,800	(813)
Elections	3,400	3,400	3,238	(162)
Buildings and grounds	<u>10,000</u>	<u>21,015</u>	<u>21,014</u>	<u>(1)</u>
Total general government	<u>227,780</u>	<u>276,908</u>	<u>285,257</u>	<u>8,349</u>

Kochville Township
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended March 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Public works				
Drains	\$ 2,000	\$ 2,000	\$ 4,068	\$ 2,068
Highways, streets and bridges	203,000	182,000	166,484	(15,516)
Street lighting	9,000	9,000	8,628	(372)
Sanitary land fill	85,000	85,000	88,290	3,290
Total public works	299,000	278,000	267,470	(10,530)
Community and economic development				
Planning	64,500	54,000	56,832	2,832
Zoning	1,100	2,100	1,835	(265)
Total community and economic development	65,600	56,100	58,667	2,567
Recreation and culture				
Parks and recreation	432,150	411,150	234,162	(176,988)
Library	-	-	1,464	1,464
Total recreation and culture	432,150	411,150	235,626	(175,524)
Capital outlay	18,000	20,372	9,925	(10,447)
Debt service				
Interest and fiscal charges	8,700	8,700	-	(8,700)
Total expenditures	1,051,230	1,051,230	856,945	(194,285)
Excess (deficiency) of revenues over expenditures	(174,207)	(174,207)	(32,803)	141,404
Fund balance - beginning of year	219,585	219,585	219,585	-
Fund balance - end of year	\$ 45,378	\$ 45,378	\$ 186,782	\$ 141,404

Kochville Township
Required Supplemental Information
Budgetary Comparison Schedule
Fire Fund
For the Year Ended March 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Other state grants	\$ 5,000	\$ 5,000	\$ 9,235	\$ 4,235
Charges for services	30,000	30,000	26,742	(3,258)
Interest income	-	-	378	378
Other revenue	<u>134,000</u>	<u>134,000</u>	<u>137,544</u>	<u>3,544</u>
Total revenues	<u>169,000</u>	<u>169,000</u>	<u>173,899</u>	<u>4,899</u>
Expenditures				
Current				
Public safety	131,350	131,350	148,230	16,880
Capital outlay	41,100	41,100	7,130	(33,970)
Transfers out	<u>25,523</u>	<u>25,523</u>	<u>25,523</u>	<u>-</u>
Total expenditures	<u>197,973</u>	<u>197,973</u>	<u>180,883</u>	<u>(17,090)</u>
Excess (deficiency) of revenues over expenditures	(28,973)	(28,973)	(6,984)	21,989
Fund balance - beginning of year	<u>110,091</u>	<u>110,091</u>	<u>110,091</u>	<u>-</u>
Fund balance - end of year	<u>\$ 81,118</u>	<u>\$ 81,118</u>	<u>\$ 103,107</u>	<u>\$ 21,989</u>

Kochville Township
Required Supplemental Information
Budgetary Comparison Schedule
Building Inspection Fund
For the Year Ended March 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Licenses and permits	\$ 66,500	\$ 66,500	\$ 94,052	\$ 27,552
Charges for services	-	-	75	75
Interest income	-	-	219	219
	<u>66,500</u>	<u>66,500</u>	<u>94,346</u>	<u>27,846</u>
Expenditures				
Current				
Public works	64,500	64,500	56,237	(8,263)
Capital outlay	<u>2,000</u>	<u>2,000</u>	<u>615</u>	<u>(1,385)</u>
	<u>66,500</u>	<u>66,500</u>	<u>56,852</u>	<u>(9,648)</u>
Total expenditures				
Excess of revenues over expenditures	-	-	37,494	37,494
Fund balance - beginning of year	<u>11,929</u>	<u>11,929</u>	<u>11,929</u>	<u>-</u>
Fund balance - end of year	<u>\$ 11,929</u>	<u>\$ 11,929</u>	<u>\$ 49,423</u>	<u>\$ 37,494</u>

Kochville Township
Other Supplemental Information
Component Unit - Downtown Development Authority
Budgetary Comparison Schedule
For the Year Ended March 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 80,000	\$ 80,000	\$ 85,243	\$ 5,243
Interest income	-	-	3,126	3,126
Other revenue	-	-	1,800	1,800
Total revenues	<u>80,000</u>	<u>80,000</u>	<u>90,169</u>	<u>10,169</u>
Expenditures				
Current				
Public works	53,700	53,700	10,276	(43,424)
Other functions	-	-	42	42
Capital outlay	<u>122,250</u>	<u>122,250</u>	<u>126,038</u>	<u>3,788</u>
Total expenditures	<u>175,950</u>	<u>175,950</u>	<u>136,356</u>	<u>(39,594)</u>
Excess (deficiency) of revenues over expenditures	(95,950)	(95,950)	(46,187)	49,763
Fund balance - beginning of year	<u>288,202</u>	<u>288,202</u>	<u>288,202</u>	<u>-</u>
Fund balance - end of year	<u>\$ 192,252</u>	<u>\$ 192,252</u>	<u>\$ 242,015</u>	<u>\$ 49,763</u>

Kochville Township
Other Supplemental Information
Schedule of Indebtedness
March 31, 2005

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Interest	Total
Business-type activities	5.50%	2006	\$ 25,600	\$ 17,241	\$ 42,841
Contract payable - Northwest	5.50%	2007	26,200	15,833	42,033
Utilities Authority	4.60%	2008	27,500	14,392	41,892
Amount of issue - \$ 2,970,000,	4.50%	2009	28,100	13,127	41,227
Township share based on 2004-05	4.50%	2010	29,400	11,862	41,262
usage of 12.491%.	4.50%	2011	30,000	10,539	40,539
	4.50%	2012	31,200	9,189	40,389
	4.50%	2013	32,500	7,785	40,285
	4.50%	2014	33,700	6,323	40,023
	4.50%	2015	35,000	4,806	39,806
	4.50%	2016	35,600	3,231	38,831
	4.50%	2017	36,200	1,629	37,829
			<u>\$ 371,000</u>	<u>\$ 115,957</u>	<u>\$ 486,957</u>



3023 Davenport
Saginaw, MI 48602
Phone (989) 793-9830 / (800) 968-0010
Fax (989) 793-0186

**Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit
of Financial Statements Performed in Accordance
with Government Auditing Standards**

To the Township Board
Kochville Township
Saginaw, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Kochville Township as of and for the year ended March 31, 2005, which collectively comprise Kochville Township's basic financial statements and have issued our report thereon dated May 19, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Kochville Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kochville Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Township, management and federal awarding agencies and pass-through entities and is not intended and should not be used by anyone other than these specified parties.

Yeo & Yeo, P.C.

May 19, 2005
Saginaw, Michigan



3023 Davenport
Saginaw, MI 48602
Phone (989) 793-9830 / (800) 968-0010
Fax (989) 793-0186

July 31, 2005

To the Township Board
Kochville Township

In planning and performing our audit of the financial statements of Kochville Township for the year ended March 31, 2005, we considered the Township's internal control system to determine our auditing procedures for the purposes of expressing an opinion on the financial statements and not to provide assurance on the internal controls.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments regarding those matters. This letter does not affect our report dated May 19, 2005, on the financial statements of Kochville Township.

UTILITIES BILLING ADJUSTMENTS

Strong internal controls require monitoring and oversight of accounts that are susceptible to manipulation and misappropriation. During our audit, it was noted that the monthly adjustments made to customer's accounts are not being reviewed on a regular basis by someone independent of the utilities billing process. We recommend a designated individual receive a monthly report of adjustments made to customer's accounts and review it paying close attention to the following items: recurring adjustments to the same accounts, adjustments to Township employee's accounts, other related party's accounts, and void transactions. After review, the individual should initial their approval and these reports should be maintained for outside verification.

JOURNAL ENTRIES

In performing test of controls of journal entries we noted that there is no review process for journal entries made. We recommend an individual independent of the journal entry process look at them for proper amount, classification and for unusual items. This review process will take minimal time and needs to be done on a reoccurring basis. After review, the individual should initial their approval and these reports should be maintained for outside verification.

Page 2

Township Board
Kochville Township

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with Township personnel. We will be pleased to discuss these items in further detail at your convenience, to perform any additional study of these matters or to assist you in implementing the recommendations.

Very truly yours,

YEO & YEO, P.C.
CPAs and Business Consultants

A handwritten signature in black ink that reads "Michael Gensch". The signature is written in a cursive, flowing style.

Mike Gensch